

MEMORANDUM

To: Housing & Community Development Committee
From: Randy Stallings, Community Development Analyst
Date: September 14, 2007
Subject: Housing Trust Fund Applications
13 Hamilton Street (T. Vorst) and 13 Fern Street (P. Nordeen)

Summary

The Community Development Department has received two applications for funding, **each in the amount of \$60,000**. Each project is a two-bedroom unit with a one-bedroom accessory apartment. The first project at 13 Hamilton Street (between McDowell and Biltmore) is being developed by Tim Vorst. The second project at 13 Fern Street, in Shiloh, is being built by Peter Nordeen. Mr. Nordeen has served as the general contractor for many of the prior projects developed by Mr. Vorst.

A panel consisting of three staff members evaluated each proposal. Composite evaluations are attached.

The current available balance in the trust fund is \$434,045.

13 Hamilton Street - Evaluation and staff comments

The proposal scored 87 out of a possible 140 points.

Strengths: A sound application, with particularly high scores for the cost per unit, location, efficient land use and applicant capacity. Mr. Vorst has substantial experience developing affordable housing projects of this size and scope. If approved, this would be his seventh HTF loan.

Concerns: Although the developer builds to high standards, he does not propose the external monitoring needed to attain Energy Star certification. Rents are affordable to tenants below 80% AMI, but not for those below 60% AMI. The cash flow and debt coverage ratio are rather weak – replacing \$5,000 of bank financing with equity would substantially improve the financial plan.

13 Hamilton Street - Recommendation

Staff recommends approval of the loan.

13 Fern Street - Evaluation and staff comments

The proposal scored 73 out of a possible 140 points.

Strengths: The developer serves as his own contractor, keeping costs per unit exceptionally low and effectively adding around \$25,000 additional equity in the form of contractor overhead and profit foregone. Location, efficient land use, and neighborhood compatible design are also strengths. Although he is a first-time applicant, Mr. Nordeen's prior experience as a general contractor on similar projects is a positive factor.

Concerns: The Pro-Forma as presented does not reflect a need for HTF financing. Even factoring in an additional \$25K equity, and a more realistic cost for bank financing, the annual return on equity investment with the HTF loan is 22% and the debt coverage ratio is 2.2, both very high for a rental property. Net cash flow is in fact sufficient to cover 100% bank financing and make a reasonable (10%) return on investment.

13 Fern Street – Recommendation

Staff regretfully recommends declining the loan proposal.